

STANISLAUS COUNTY ASSESSMENT PRACTICES SURVEY

JULY 2001

CALIFORNIA STATE BOARD OF EQUALIZATION

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July 31, 2001

TO COUNTY ASSESSORS:

STANISLAUS COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2001/054

A copy of the Stanislaus County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Mike DeFerrari, Stanislaus County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, the assessor's response, and the BOE's comments regarding the assessor's response constitute the final survey report which, pursuant to Government Code section 15646, is distributed to the Governor, Attorney General, and State Legislature; and to the Stanislaus County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The BOE's County Property Tax Division performed fieldwork for this survey of the Stanislaus County Assessor's Office during January and February 2000. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Mr. DeFerrari and his staff for their cooperation and patience during this assessment practices survey.

These survey reports give the government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Stanislaus County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increased the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, the Stanislaus County Grand Jury, and the Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Mike DeFerrari, Stanislaus County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type.

In addition, Revenue and Taxation Code section 75.60¹ requires the BOE to certify whether the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Stanislaus County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Stanislaus County with information relevant to its property tax assessment program. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether significant assessment problems exist, as defined by Property Tax Rule 371.

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on our analysis that indicates statutory violations, under- or over-assessments, or unacceptable appraisal practices may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of the assessor's office outside those areas related to assessment.

¹ All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

EXECUTIVE SUMMARY

This report not only presents recommendations for improvement but also attempts to note those program elements that are particularly effective and efficient. It also highlights areas of improvement since our last assessment practices survey, and it acknowledges the implementation of previous recommendations.

- The assessor's budget for 1999-2000 was \$3,509,329, which funded 53 positions. The secured and unsecured assessment rolls totaled approximately \$21 billion and over 156,000 assessment units.
- The assessor's appraisers possess the required BOE-issued certificates.
- We found no problems in the assessor's assessment appeals program. The assessor has an effective program for the discovery and annual review of properties that have experienced declines in value. Supplemental assessments, California Land Conservation Act properties, historical properties, and tenant improvements are being assessed correctly. The assessor maintains an effective audit program.
- Disaster relief policies and procedures are the subject of three recommendations: (1) Some disaster relief reassessments are processed without the required application. (2) The personal property division fails to prorate disaster relief over the period specified in section 170. (3) When disaster relief affects two tax years, the assessor improperly aggregates the disaster relief reassessment into one of those years.
- The assessor's exemption section fails to cite the proper Revenue and Taxation Code section when entering corrections on the assessment roll and enrolling escape assessments.
- Escape assessments falling below a certain value threshold are exempted without the assessor having the authority to do so.
- We recommend the assessor cite section 531.4 to ensure interest is imposed on escape assessments where appropriate.
- Publication of the section 408.1 transfer list must include the transferors' names.
- Taxable possessory interests are the subject of several recommendations. Low-value properties are escaping assessment. We recommend the assessor review possessory interests for recent lease data and for possible changes in ownership. We also recommend the assessor review uses of the fairgrounds and convention center to determine whether additional taxable possessory interests exist.
- We recommend the assessor review the valuation of all taxable government-owned properties.

- We recommend the assessor screen property statements to ensure they contain the proper signatures, pursuant to Property Tax Rule 172.
- Although the assessor has an effective audit program, he employs minimum valuation factors and averages the equipment valuation indices. We recommend that the assessor use the BOE equipment index factors as intended.
- Appropriate valuation factors from Assessors' Handbook Section 581 are not being used for construction mobile equipment.
- Computers should be assessed using the BOE's recommended factors.
- Two recommendations address the assessment of manufactured homes: (1) The assessor should classify manufactured homes as personal property; and (2) the assessor needs to ensure that manufactured homes are assessed at their full cash value upon a change in ownership.
- We recommend the assessor revise his procedures for engine hour adjustments of aircraft values and that he perform an annual market study of boats.
- Despite the problems noted above, we found that most properties and property types are assessed correctly.
- As defined in Property Tax Rule 371, we found no significant assessment problems. Accordingly, pursuant to section 75.60, Stanislaus County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Here is a list of formal recommendations contained in this report, arranged in the order they appear in the text.

RECOMMENDATION 1:	Require property owners to file a disaster relief application before granting disaster relief pursuant to section 170.....	9
RECOMMENDATION 2:	When processing disaster relief claims, prorate the assessment according to section 170(e).	10
RECOMMENDATION 3:	Calculate the appropriate value reductions for each year when disaster relief applications span two tax years, as required by section 170(e).	10
RECOMMENDATION 4:	Cite the proper Revenue and Taxation Code sections when processing roll corrections.	11
RECOMMENDATION 5:	Use the proper caption when enrolling escape assessments.....	11

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RESULTS OF THE 1995 SURVEY

Change in Ownership

We found the assessor, when processing section 63.1 parent to child exclusions from change in ownership assessment, no longer required property owners to file a claim form. The assessor now requires a claim before granting the section 63.1 exclusion.

California Land Conservation Act Properties

We made a three-part recommendation referring to the assessment of property under California Land Conservation Act contract. That recommendation addressed the assessment of unrestricted improvements, irrigation improvements, and an error found in the assessor's computer valuation of those properties. The assessor has fully implemented our recommendations.

Disaster Relief

We recommended the assessor petition the board of supervisors to enact a disaster relief ordinance that conforms to section 170. The board of supervisors has enacted such an ordinance. We also recommended the assessor limit the use of supplemental assessments until the board of supervisors enacted that ordinance. That recommendation has also been resolved.

Taxable Possessory Interests

We recommended the assessor develop written procedures for appraising possessory interests and provide training in the proper methods of those appraisals. One of the problems identified during that survey has not been addressed: enrollment of all taxable possessory interests at the Stanislaus County Fairgrounds and at the convention center located in Modesto. At that time, the assessor had enrolled only one taxable possessory interest at the fairgrounds and no assessments at the convention center. Although the assessor has now enrolled a total of three possessory interests at the fairgrounds and one at the convention center, we found that he has not fully implemented this recommendation.

Low-Value Property Exemption

We recommended the assessor petition the board of supervisors to revise the low-value property exemption ordinance to cover all types of property. The current BOE staff interpretation of section 155.20 finds the county's ordinance to be in compliance with the statute.

Business Property Valuation

We recommended the assessor use the Assessors' Handbook Section 581 depreciation table for mobile construction equipment and adequately document local market studies used to value equipment. We found the assessor has not implemented this recommendation.

OVERVIEW OF THE STANISLAUS COUNTY ASSESSOR'S OFFICE

Budget and Workload

For the fiscal year 1998-99, the assessor operated on a budget of \$3,396,460; the adopted budget for 1999-2000 was \$3,509,329. The assessor has a staff of 53.

The assessed value totals approximately \$21 billion, including both the secured and unsecured rolls. The assessment roll consists of over 156,000 units—130,422 units on the secured roll and the balance on the unsecured roll.

Assessment Roll by Property Type

The following chart displays pertinent information from the 1999-2000 assessment roll. This information was provided by the assessor.

<u>Property Type</u>	<u>Number of Assessments</u>	
	<u>in County</u>	<u>Enrolled Values</u>
Residential	105,536	
Commercial	8,907	
Industrial	1,585	
Rural	14,394	
Total Secured Roll	130,422	\$19,878,711,000
Total Unsecured Roll (personal property except manufactured homes)	26,313	1,145,681,000
Total Roll	156,735	\$21,024,392,000

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined the training of appraisal staff, disaster relief, changes to the completed assessment roll, low-value property exemption, supplemental assessments, the county's participation in the State-County Property Tax Administration Loan Program, and the preparation and presentation of assessment appeals.

Training

Section 670 requires all persons who perform the duties of an appraiser for property tax purposes to hold a valid certificate issued by the BOE. Section 671 further provides that all appraisers who hold such a certificate must complete at least 24 hours of annual training. This requirement is reduced to 12 hours if an appraiser holds an advanced certificate. We found that all appraisers possess the required certificate.

Since our last survey, the assessor has improved his training program by developing a database for tracking the annual training of his staff, establishing a committee to review the training needs of his office, and sponsoring training courses for his appraisers.

Disaster Relief

The Revenue and Taxation Code authorizes tax relief to owners of property damaged or destroyed by a calamity or a disaster. Section 170 permits the county board of supervisors to adopt an ordinance authorizing property tax relief on qualifying damaged property. In addition, manufactured homes, although classified as personal property, are granted disaster relief by sections 172, 172.1, and 5825(c). These provisions apply both to manufactured homes subject to vehicle license fees and to those subject to local property taxation.

After the 1997 floods, the assessor proactively identified many of the properties experiencing damage and developed effective procedures to handle the resulting disaster relief reassessments. While we commend him for those efforts, we make three recommendations for improvements to his disaster relief program

RECOMMENDATION 1: Require property owners to file a disaster relief application before granting disaster relief pursuant to section 170.

We found that the assessor requires property owners to file disaster relief applications for damage to real property, but does not require applications for personal property damage. Section 170(a) requires property owners seeking disaster relief to execute, under penalty of perjury, an application for reassessment following a disaster. If no application is made, and the assessor

determines that the property suffered a disaster within the preceding six months, the assessor shall provide an application to the last known owner of the property.

We recommend the assessor require applications from all property owners before granting disaster relief.

RECOMMENDATION 2: When processing disaster relief claims, prorate the assessment according to section 170(e).

Section 170(e) specifies the disaster relief period; relief should begin as of the first day of the month of the disaster and continue through the end of the month repairs are completed. Although the assessor processes real property disaster relief assessments correctly, the business property section prorates all disaster relief from the exact date of the event to the exact date of restoration. This procedure provides less disaster relief than required by statute and results in minor overassessments of the damaged property.

We recommend the assessor allow disaster relief for the entire period permitted by statute.

RECOMMENDATION 3: Calculate the appropriate value reductions for each year when disaster relief applications span two tax years, as required by section 170(e).

Section 170(e) provides that the assessor shall determine the prorated portion of the taxes that would have been due on the property on the basis of the number of months in the current fiscal year before and after the misfortune or calamity. We found that when supplemental assessments are required to be made for two tax years, the total months of damage are prorated into one supplemental assessment, all allocated to one tax year rather than separately to each year's appropriate value reduction.

We recommend the assessor calculate the appropriate value reductions for each year when disaster relief reassessments span two tax years.

Assessment Roll Change Procedures

Roll changes occur when the assessor changes assessed values after the assessment roll has been turned over to the county auditor. After the roll is delivered to the auditor, changes may be made, with a few exceptions, any time within four years of the date of the assessment that is being corrected. Roll changes are authorized for a variety of reasons by sections 531, et. seq., 4831, and 4831.5. Many changes result from escaped new construction, clerical errors, and current market values that are less than factored base year values.

RECOMMENDATION 4: Cite the proper Revenue and Taxation Code sections when processing roll corrections.

We found that the assessor's exemption section often cites incorrect code sections when making roll corrections. For example, roll changes for late homeowners' exemption claims cited section 275 and section 255.3. Similar sections are cited for roll corrections resulting from late-filed welfare and other exemptions. None of those sections cited by the assessor authorizes changes to the assessment roll. Roll changes for incorrect roll entries, not resulting from an error in value judgment, should cite section 4831 or 4831.5.

We recommend the assessor cite the proper code sections for the authorization of roll corrections.

Escape Assessments

An escape assessment is an assessment made after the assessor has certified the completed local roll and delivered it to the county auditor. Upon discovery of property escaping assessment, the assessor must add the escape assessment and any applicable penalty to the assessment roll.

RECOMMENDATION 5: Use the proper caption when enrolling escape assessments.

When escape assessments are made, the roll entry must reference the year the property escaped assessment and applicable sections of the Revenue and Taxation Code. Section 533 dictates the specific caption that must be entered on the roll. That section provides, in relevant part,

[I]f this is not the roll for the assessment year in which the property escaped assessment, the entry shall be followed with "Escaped assessment for year ____ pursuant to Sections _____ of the Revenue and Taxation Code."

We could not find this information either on the microfiche of the roll or in the computer roll data. We recommend the assessor section cite the proper caption when enrolling escape assessments.

RECOMMENDATION 6: Where appropriate, cite section 531.4 to ensure that section 506 interest is added to escape assessments.

Section 531.4 requires the imposition of section 506 interest for escape assessments resulting from incorrect reporting on a BOE-prescribed property statement or form. When enrolling an escape assessment subject to section 506 interest, citing section 531.4 will advise the auditor-controller to add that interest to the resulting tax bill. When the real property division discovers unreported property belonging to a taxpayer who should have filed a property statement, we found the assessor cites section 531. A citation to the more specific section 531.4 is more appropriate.

We recommend the assessor ensure the imposition of section 506 interest by citing the proper Revenue and Taxation Code section when enrolling escape assessments that should have been reported on a property statement.

RECOMMENDATION 7: Enroll all escape assessments.

Section 531 provides that: "If any property belonging on the local roll has escaped assessment, the assessor *shall* assess the property on discovery at its value on the lien date for the year for which it escaped assessment." [Emphasis added.] We found that the assessor requires a minimum value change of \$1,500 before processing an escape assessment and a minimum change of \$500 before processing a roll correction or a refund. No provision of the Revenue and Taxation Code requires a minimum value to process escape assessments or roll corrections.

We recommend the assessor enroll all escape assessments, regardless of value.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt all real property with a base year value and personal property with a full value so low that, if not exempt, the total taxes would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine the point at which the cost of processing assessments and collecting taxes exceeds the funds collected.

On May 21, 1991, the Stanislaus County Board of Supervisors adopted a low-value property exemption of \$2,000 for personal property. During 1994, the board of supervisors extended that exemption to cover \$5,000 of manufactured home accessories. We found that the assessor has an effective low-value property exemption program.

Supplemental Assessments

Section 75, et seq., require the assessor to issue a supplemental assessment when property changes ownership, or upon the completion of new construction. The increase or decrease in assessed value is reflected in a prorated assessment (the supplemental roll) that covers the portion of the fiscal year remaining after the date of change in ownership or completion of new construction. For changes in ownership or completed new construction occurring between the lien date and May 31, two supplemental assessments are issued. The first covers the portion of the current fiscal year remaining after the assessable event; the second covers the ensuing fiscal year in its entirety.

We found that the assessor has an effective supplemental assessment program.

State-County Property Tax Administration Loan Program

Enactment of section 95.31 established the State-County Property Tax Administration Loan Program (PTAP).² This program provides state-funded loans to eligible counties for the improvement of property tax administration.

If an eligible county elects to participate, the county and the State Department of Finance (DOF) enter into a written contract described in section 95.31. A PTAP loan is considered repaid if the county satisfies performance criteria set forth in the contract. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

Although performance in the BOE's survey program is one of the contractual performance criteria specified in section 95.31, the BOE has no direct role in determining whether a county has met its contractual performance measures for loan repayment. For most counties, the contract provides that verification of performance is provided to the DOF by the county auditor-controller. In the paragraphs below, we briefly describe Stanislaus County's participation in the PTAP.

Stanislaus County participated in the PTAP during calendar year 1999, for which it borrowed \$866,155. On November 28, 1999, the Stanislaus County Auditor-Controller certified to the DOF that the assessor had met the performance requirements for loan repayment.

Stanislaus County has used PTAP funds to recruit and train additional full-time staff, perform non-mandatory audits, enroll escape assessments, prepare and defend assessment appeals, and review decline-in-value assessments through increased staffing. Funds have also been used to purchase new information technology hardware and software, all designed to increase the long-term productivity of the assessor's office.

Assessment Appeals

The assessment appeals function is required under article XIII, section 16, of the California Constitution, which provides that the county board of supervisors, or one or more assessment appeals boards created by the county board of supervisors, shall constitute the county board of equalization. Sections 1601 through 1641.1 govern county boards of supervisors and assessment appeals boards in the appeals function. In addition, Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization. Pursuant to that mandate, the BOE adopted Property Tax Rules 301 through 326 (Title 18, Public Revenue, California Code of Regulations) pertaining to assessment appeals.

A review of the appeals function involves both the activities of the assessor's office and the activities of the county assessment appeals board as they relate to assessment appeals. The two agencies must have a working relationship in order to make the entire appeals process effective

² AB 818, Chapter 914, Statutes of 1995.

and efficient, particularly in the case of scheduling and document processing. However, at the same time, they must maintain the statutory separation of authority and responsibility of both agencies.

As part of our research, we reviewed the assessor's assessment appeals preparation and presentation. Since our last survey, the assessor has implemented a comprehensive assessment appeal tracking system, developed standardized appeals forms, and collaborated closely with the clerk of the board to schedule appeals hearings. Most appeals were resolved within one year. We found that the assessor effectively administers his assessment appeals program.

We also reviewed the assessor's relationship with the assessment appeals board. We found that the assessor currently maintains the proper separation of powers. While the assessor has funded a clerical position for the appeals board—to help process applications—we found that the assessor has adequately resolved any conflict of interest concerns that may have existed in this regard.

ASSESSMENT OF REAL PROPERTY

Article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value, factored at no more than 2 percent per year for inflation, unless there is a change in ownership or new construction. The 1975 full cash value and subsequent values that result from a change in ownership or new construction are known as base year values.

The assessor's real property assessment program includes (1) revaluation of properties that have changed ownership, (2) valuation of assessable new construction, (3) annual review of properties having market values below their factored base year values, and (4) annual review of certain properties subject to special assessment provisions.

Change in Ownership

One of the assessor's duties is to identify and value real property that has changed ownership. Section 60 defines a change in ownership as the transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest.

Sections 62 through 69.5 exclude certain transfers from the definition of change in ownership. Exclusions include, but are not limited to, interspousal transfers, qualifying transfers between parents and children, and property acquired as a replacement for property taken by eminent domain.

Most often, the assessor learns of a change in ownership when a deed is recorded at the county recorder's office. In Stanislaus County, the assessor reviews each recorded deed to discover changes in ownership.

During our current survey, we reviewed the appraisal records for properties that had changed ownership, as well as the procedures for processing transfers. Overall, the assessor's operations in these areas are efficient and in compliance with acceptable practices. However, we did note one problem area that needs to be addressed.

Section 408.1 Transfer Lists

RECOMMENDATION 8: Include transferors' names on the section 408.1 transfer list.

Section 408.1 requires the assessor to maintain a list of transfers of any interest in property, other than undivided interests, that have occurred within the preceding two-year period. This list must be updated quarterly. Section 408.1 also requires this list to contain the names of the transferor and transferee, assessor's parcel number, address of the property, date of transfer, date of recording, recording reference number, and, when known, the consideration paid for the property. We noted that the section 408.1 transfer list available to the public did not contain transferors' names.

We recommend the assessor add transferors' names to the transfer list pursuant to section 408.1.

New Construction

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new construction activity from the building permits issued by various government agencies. Other discovery methods include reviewing business property statements, aerial photographs, news reports, and conducting field inspections.

We found that the assessor has an effective program for the discovery and assessment of new construction.

Decline in Value

Section 51 requires the assessor, as of the lien date each year, to value taxable real property at the lesser of its factored base year value, or the current market value, as defined in section 110. Should a property's current market value decline below its factored base year value, for any reason, that lower value must be enrolled as the taxable value for the year(s) of the decline. Any value enrolled as a decline in value requires annual review until the property's current market value exceeds its factored base year value. The factored base year value is then restored as the taxable value.

Although not required by law to reappraise every property annually, most assessors make a concerted effort to monitor market trends and individual property situations in order to recognize value declines. Until recently, overall property values in California had been declining. As a result, most assessors' offices were overwhelmed with appeals from taxpayers who felt that their properties had experienced declines in value.

Stanislaus County currently has approximately 33,000 properties—nearly one-quarter of its total secured roll—with assessed values below their factored base year values. To process that volume of decline-in-value appraisals, the assessor has developed a computer-aided appraisal system that automated the annual review of many of these parcels. All other parcels also receive the annual review required by statute. We found that the assessor properly applies all appropriate statutory provisions when assessing properties that have experienced declines in value.

Taxable Possessory Interests

Section 107 and Property Tax Rule 20(a) define a taxable possessory interest as an interest in real property which exists as a result of possession, exclusive use, or a right to possession or exclusive use of land and/or improvements unaccompanied by ownership of a fee simple or life estate in nontaxable, publicly owned real property.

The assessor conducts an aggressive possessory interest discovery program and regularly contacts 73 government agencies that own property in Stanislaus County. As a result, there are 430 separate possessory interest assessments on the 1999-2000 roll. Overall, the possessory interest

assessment program is well managed and thorough. There are, however, several areas where the possessory interest program could be improved.

RECOMMENDATION 9: Obtain copies of all possessory interest leases and contracts.

Although the assessor maintains annual written contact with public agencies throughout Stanislaus County, usually, he only receives updated tenant lists. We found that very few of the files contained current leases. Although the staff retains a copy of the contract or lease if the public agency submits it, they do not make a specific effort to obtain a copy of the current lease or contract on all possessory interests.

Since the assessor does not have copies of most leases, he must estimate the type and amount of expenses; consequently, this adjustment may not reflect the typical expenses. Copies of current leases will facilitate the proper assessment of possessory interests.

We recommend the assessor obtain copies of all possessory interest leases.

RECOMMENDATION 10: Review all uses of the fairgrounds and convention center properties to determine whether additional taxable possessory interests exist.

In our prior survey, we recommended the assessor enroll all qualifying taxable possessory interests at the Stanislaus County Fairground and at the convention center located in Modesto. At that time, the assessor had enrolled only one taxable possessory interest at the fairgrounds and no assessments at the convention center. During our current survey, we found that the assessor has corrected this oversight to a small degree. The assessor has now enrolled three possessory interest assessments at the fairgrounds and one at the convention center. We obtained a list of 66 annually recurring events at the county fairgrounds, other than the fair itself, along with a list of 109 vendors. We were also able to acquire a listing of over 800 events from the convention center.

We believe that many of these uses may be sufficiently recurring, beneficial, exclusive, and independent to warrant assessment as taxable possessory interests. Although section 155.20 authorizes the board of supervisors to exempt these possessory interests up to \$50,000, the board has not adopted such a measure. Consequently, we recommend that the assessor review all uses of the fairgrounds and convention center to determine whether taxable possessory interests exist.

RECOMMENDATION 11: Enroll all low-value taxable possessory interests.

We found several low-value taxable possessory interests that were valued but not enrolled. All of those assessments were "T-hangers" located at local airports, valued at \$1,000 each. During our discussion with the assessor's staff, we discovered they believe the low-value ordinance exempts all taxable possessory interests valued at less than \$2,000.

However, Stanislaus County's low-value ordinance exempts only low-valued personal property assessments of \$2,000 or less. Possessory interests are classified as real property and do not

qualify for this exemption. Until the board of supervisors extends the ordinance to exempt low-value real property, the assessor has no authority to exempt these taxable possessory interests.

We recommend that the assessor enroll all low-value taxable possessory interest assessments, issuing escape assessments as necessary.

RECOMMENDATION 12: Recognize possessory interest changes in ownership.

We found two taxable possessory interests with leases that had expired in the late 1980's and were never reappraised to reflect a change in ownership. Both possessory interest assessments had been increased by the CCPI inflation factor since their last valuation.

Section 61 provides, in part, that the renewal, extension or assignment of a taxable possessory interest is a change in ownership. When the original contracts expire, and the assessor has not used a term of possession exceeding that contract term, a change in ownership has occurred, whether or not the possessor has changed.

We recommend the assessor review all existing possessory interest assessments to determine whether changes in ownership have occurred, issuing escape assessments as necessary.

Taxable Government-Owned Property

Article XIII, section 3, of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11(a) of the California Constitution. Section 11(a) provides that land, and the improvements thereon, located outside an agency's boundaries, are taxable if the property was subject to taxation at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as "Section 11" properties.

Stanislaus County currently has 221 Section 11 properties on the assessment roll. The policies and procedures manual for the discovery and valuation of government-owned property is thorough and complete. Despite that thoroughness, we found that the assessor needs to review his assessment of Section 11 properties.

RECOMMENDATION 13: Review all taxable government-owned properties for proper valuation.

We compared tax-rate area codes with the tax-rate area index to verify whether government-owned properties were within their agencies' specified boundaries. In addition to the 221 known Section 11 parcels, we found at least 17 government-owned properties that appear to be located outside those agencies' boundaries and may, therefore, be assessable and taxable.

We stress that some of these parcels *may* be assessable. Before any action can be taken, each parcel must be researched to determine whether the parcel was taxable when acquired and

whether the parcel is, in fact, outside the agency's boundaries. Once the taxable status is known, the property can be assessed in accordance with the provisions of section 11 of article XIII of the California Constitution.

We also found several properties assessed under the provisions of section 11, but valued incorrectly. In some cases, those properties had a \$1 roll value. The assessor's staff believes the value attributable to these properties is appurtenant to the properties they serve. Although these properties may indeed serve other properties, if these properties and their improvements were subject to taxation at the time of acquisition and outside the controlling agency's boundaries, they must be assessed in accordance with the provisions of section 11.

In other instances, it appears the assessor determined base year values incorrectly. In most of these cases, there seems to have been some confusion as to which value constituted the base year value at the time the properties were acquired: the current market value or the section 11 value.

We recommend the assessor identify all taxable government-owned properties and review them for proper assessment in accordance with article XIII, section 11, of the California Constitution.

California Land Conservation Act Property

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their lands. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use income (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current unrestricted market value, or the factored base year value. Sections 422 through 430.5 prescribe the guidelines for assessing land subject to CLCA contracts.

Stanislaus County has over 7,000 parcels, encompassing approximately 675,000 acres, encumbered by 4,407 CLCA contracts—an increase of approximately 400 contracts since our 1995 assessment practices survey. 136 contracts are in nonrenewal status. The assessor accurately calculates CLCA restricted land values annually and properly calculates property values for non-renewed contracts. The BOE-prescribed yield rates are also updated annually. Land rents are updated every other year, as are CLCA property rent and compatible use surveys.

We found that the assessor is in compliance with all statutory provisions regarding the assessment of CLCA property.

Historical Property

The Mills Act provides a specific procedure for the assessment of certain historical properties. Its purpose is to encourage the renovation and maintenance of historical properties throughout California by providing a property tax incentive for their owners. Government Code section 50280 provides that the owner of a qualified historical property may enter into a contract with local

government to restrict the use of the property in a manner which preserves the property in return for property tax benefits, valuation pursuant to a specific statutory methodology.

The county has nine parcels assessed under the provisions of the Mills Act. We found that the assessor enrolls the value as prescribed by statute. The appraisal files contain copies of the contracts with the local governments, income data, worksheets, and both the city and county ordinances establishing a historical preservation district and the historical preservation zone. Historical properties in Stanislaus County are assessed correctly.

Leasehold Improvements

Leasehold (or "tenant") improvements are improvements located on land owned by someone other than the owner of the improvements. Leasehold improvements may vary from simple tenant improvements, such as storefronts, interior finish, partitions, etc. to entire buildings. Leasehold improvements may be enrolled on either the secured roll or the unsecured roll. Although in some cases these improvements cannot be enrolled on the secured roll, they must be assessed in the same manner as other real property.

Commercial, industrial, and other types of income-producing properties require constant monitoring by assessors because, as tenants change over a period of time, they may alter the original improvements in a number of ways. Examples include additions, removals, or possibly both, resulting in a changed use of the property. These changes must, by law, be reviewed and reflected in the property's assessment if they qualify as new construction.

A portion of the BOE-prescribed business property statement (Schedule B of Form 571-L) requires taxpayers to report real property costs incurred for construction, remodeling, or alterations at a given business location; this schedule includes costs expended by tenants for improvements to rented or leased buildings or land.

The auditor-appraisers in the business property division review costs reported on Schedule B to screen for those they believe to be assessable tenant improvements. Copies of business property statements with structure costs are forwarded to the commercial/industrial section for review.

The business property statement also serves as a check on construction that may have been performed without a building permit; coordination between the two divisions provides real property appraisers with historic costs reported by property owners. Correspondingly, real property appraisers provide auditor-appraisers with data that aids in segregating reported costs into real and personal property components.

We reviewed approximately 25 business property statements and real property assessment records with tenant improvements. During that review, we checked for (1) reported costs and descriptions, (2) proper identification of tenant improvements, (3) coordination between the business property division and the real property division to ensure proper assessment, and (4) proper assessment of tenant improvements, looking for possible double assessments and escape

assessments. We found that items reported on the business property statements pertaining to real property were properly transmitted to the real property division. Of the properties reviewed, no significant problems relating to the assessment of tenant improvements were found. The lines of communication between the real property and business property divisions are very effective.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The business property division annually processes more than 13,000 business personal property assessments with an assessed value of nearly \$2.4 billion. This division also assesses approximately 5,500 vessels and 280 general aircraft with assessed values of \$37 million and \$46 million respectively. The staff of the business property division consists of one supervising auditor-appraiser, two senior auditor-appraisers, six auditor-appraisers, and three clerical support staff. This staffing level represents an increase of four auditor-appraisers since our 1995 survey.

Business Property Statement Processing

Section 441 requires that every person owning taxable personal property, with an aggregate acquisition cost of \$100,000 or more for any assessment year, file a signed property statement with the assessor. Section 441 also provides that every person owning personal property that does not require the filing of a property statement shall, upon request of the assessor, file a property statement. If a taxpayer fails to file the property statement, section 501 authorizes the assessor to estimate the value, based upon information in the assessor's possession.

Most business property assessments are based upon the data submitted by taxpayers on the annual property statements. The more accurate the data on the statements, the more accurate the assessment roll.

RECOMMENDATION 14: Screen signatures on business property statements to ensure compliance with Property Tax Rule 172.

Property Tax Rule 172 requires assesseees to provide written authorization for statements signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, or a duly appointed fiduciary. In addition, Property Tax Rule 172(d) prohibits the assessor from knowingly accepting any signed property statements that are not executed in accordance with the requirements of this section.

By requiring such written authorization, an assessor will ensure that the property statement was the taxpayer's official response.

We found two property statements, among those reviewed, signed by other than a qualified or authorized person. Neither of these improperly signed property statements had the assessee's written authorization on file.

We recommend the assessor require his staff to screen the business property statements more closely for proper signatures, rejecting those that do not conform to legal requirements.

RECOMMENDATION 15: Reject incomplete business property statements.

Data submitted on the business property statement serves as the basis for the subsequent business property assessment. Business property statements also provide important information regarding changes in business ownership, location of the property, and the business start date at the current location.

We found several accounts where section 1 of the business property statement was not completed. This section contains questions that alert the assessor to possible changes in ownership, new leasehold improvements, remodeling, or a taxpayer's change in location. When a taxpayer does not respond to these questions, important information is missing which could result in erroneous assessments.

We recommend the assessor review all business property statements to ensure that they are complete. If the filing is incomplete, the assessor should reject the statement and send the taxpayer a request for a complete filing.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain qualified low-value business accounts without requiring the annual filing of a business property statement. An initial value is established and continued for several years, with only periodic property statements or field reviews. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes and restaurants, and professional firms with small equipment holdings.

The direct assessment procedure is beneficial to the taxpayer and the assessor. Direct assessment streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be processed by the assessor.

To be selected for the Stanislaus County direct assessment program, an account must have stable assessments of less than \$75,000 for the current year and the prior two years. Also, the account can have only one location.

Audit Program

An audit program is an important function of a business property assessment program. The purpose of an audit is to ensure that taxable property and related information were reported accurately by the taxpayer and were assessed properly by the assessor.

The assessor has a small but competent staff of auditor-appraisers. With management support and direction, the staff conducts a high-quality audit program.

Mandatory Audits

At the time of our survey, section 469 required an audit of the accounting records of assessee claiming, owning, possessing, or controlling tangible business personal property and trade fixtures with a full value of \$300,000 or more. Section 469 has since been amended to raise that level to \$400,000. Property Tax Rule 192 clarifies the statute by requiring the value threshold to be reached for each of four consecutive years.

The assessor has approximately 800 accounts subject to the mandatory audit requirement. Each year the assessor generates a computer listing of accounts attaining values of \$300,000 or more for four consecutive years, which forms the basis of the mandatory audit list. To remain current, the assessor must audit approximately 200 accounts each year.

Most mandatory audits were current and the audits we reviewed were of high quality. They contained proper documentation, audit checklists, and clear, concise narratives.

Non-mandatory Audits

Although there is no legal requirement to audit all taxpayers, no auditing program is complete unless it includes a representative sampling of accounts of all sizes. An audit, or the possibility of an audit, promotes accurate reporting by taxpayers. Therefore, every class of business property account should be targeted for audit coverage.

The assessor understands the importance of auditing these non-mandatory accounts. The auditor-appraisers in the business division perform more than 200 non-mandatory audits per year.

Property Classification

We reviewed approximately 25 business property statements and real property assessment records, checking for correct property classification. We found items reported on the business property statements and items assessed on the real property records to be properly classified. Of the properties reviewed, no significant problems relating to property classification were found.

Business Property Valuation

Taxable values of business personal property are generally computed by multiplying historical acquisition costs by valuation factors. The valuation factors are the product of the price index factors and percent good factors. Accurate assessments of equipment depend on the proper choice and application of these factors.

RECOMMENDATION 16: Use the BOE's equipment index factors as intended.

The BOE provides price index and percent good factors that are used to compute current market value estimates by multiplying these factors by the reported acquisition costs of machinery and equipment. Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*

(AH 581), contains index factors for 12 categories of commercial equipment and six categories of industrial equipment, in addition to percent good factors for the equipment. The percent good factors are set forth in two tables, one for machinery and equipment, and one for agricultural and mobile construction equipment. The percent good factors for agricultural and construction equipment are provided for new and used equipment.

The assessor uses the suggested price index and percent good factors from the AH 581 to appraise machinery and equipment, but not in the manner intended. Instead of using the schedule that is designated for the particular category of property being appraised, the assessor uses an arithmetic average of price indexes for various categories of commercial equipment to compute the valuation factors. The assessor combines five of the 12 classes of commercial equipment into one schedule. The five classes are hotel, laundry, restaurant, retail, and theater. The assessor properly applies scheduled index factors for commercial office and warehouse equipment. Separate price index and percent good factors for agricultural equipment, from AH 581, are also used properly.

Because the price index factors vary for each classification, it is important that the appropriate equipment category be selected. Averaging factors for different categories of equipment might result in a small difference in total valuation; however, the accuracy of specific categories can be materially distorted. Averaging indices sacrifices accuracy for convenience, and may result in inequitable treatment of taxpayers.

We recommend the assessor use the appropriate price index factor for each category of equipment rather than averaging price indices.

RECOMMENDATION 17: Discontinue limiting valuation factors to an arbitrary minimum level.

The assessor has established arbitrary minimum valuation factors ranging between 5 and 57 percent of cost for a variety of commercial, industrial, agricultural, and construction equipment. Most classes of business property have a 20 percent minimum value.

Index factors recognize items such as price changes and the effects of technological progress, and are intended to reflect the price of a replacement. The percent good factors are intended to reflect the average loss in value suffered by specific types of properties over their expected service lives. The percent good factors contained in the handbook are based on the premise that these types of properties lose value as they age.

When valuing property, it is necessary for appraisers to analyze individual property items for deviations from the norm. If such deviations exist, it is appropriate to adjust the normal price index or percent good factor to reflect the deviation. Arbitrarily establishing minimum values is not an acceptable appraisal practice. We found no studies to support the assessor's use of minimum valuation factors.

We recommend the assessor discontinue limiting valuation factors to an arbitrary minimum level.

Our prior survey contained a recommendation that the assessor use the AH 581 depreciation table for mobile construction equipment and adequately document local market studies used to value equipment. We found that the assessor has not implemented this recommendation. We must repeat it again here.

RECOMMENDATION 18: Use the AH 581 percent good table for mobile construction equipment.

AH 581 contains two percent good tables. One, Table IV, is a general table with a large selection of average service lives that can be used for nearly all machinery and equipment. The other, Table V, is for three special groups of equipment: mobile construction equipment, mobile agricultural equipment except harvesters, and harvesters. Within each group two columns of percent good figures are listed: "New" and "Used." This differentiation accounts for the initial accelerated depreciation of equipment bought new.

The business property division values construction mobile equipment using the general depreciation schedule in Table IV. This table does not differentiate between equipment purchased new or used. This table tends to undervalue used mobile construction equipment and overvalue new mobile construction equipment. We recommend that the business property staff use the mobile construction equipment depreciation schedules, differentiating between new and used, when valuing mobile construction equipment.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values, and comply with the requirements of section 401.5, the BOE issued valuation factors for computer equipment. In LTA 98/61, the BOE provided valuation factors for use when valuing computer equipment for the 1999 lien date. The tables for small computers and mainframe computer systems represent a recalculation of the market data curves that were used to calculate values for computers in those categories for the 1996 lien date. The table for mid-range computers represents new curves based on all data accumulated to date. To develop these tables, the Members of the Board reviewed data presented by the Property Taxes Department Staff, the California Assessors' Association, and representatives of the computer industry. Computer valuation factors are provided for three categories of computers: personal (\$25,000 or less), mid-range (\$25,000 to \$499,999), and mainframe (\$500,000 or more).

RECOMMENDATION 19: Assess computers using the BOE-recommended factors.

We found that the assessor uses the BOE-recommended valuation factors for computers, but uses a minimum valuation factor of 5 percent. Using a 5 percent minimum would overvalue older computers by 250 percent. We recommend that the assessor assess all computers by using the BOE's valuation factors and discontinue the use of a 5 percent minimum valuation factor.

Leased Equipment Assessment

One of the responsibilities of the assessor's business property division is the discovery and assessment of leased equipment. Assesseees are required to report all leased property (taxable property in their possession but belonging to others) on the annual business property statement. Assesseees are required to provide the type of property, year of acquisition and manufacture, cost to purchase new, description or lease number, and the owner's name and address.

The assessor's staff uses a computer program that tracks equipment leases in the county. This program clearly shows whether equipment is assessed to the lessee or the lessor. This program provides a database for all equipment leases and has helped the auditor-appraisers track and assess leased equipment more accurately. The computer system also speeds the grouping of leases by tax-rate area and the subsequent billing to the leasing company.

We found that the assessor's procedures are sufficient for discovery, processing, and tracking the assessment of leased equipment.

Manufactured Homes

The assessment of manufactured homes is different from other types of property in California. Certain manufactured homes have been taxable on local assessment rolls since July 1, 1980. Prior to this date, manufactured homes were subject to license fees paid through the Department of Motor Vehicles. A manufactured home is subject to local property taxes if it was first sold new after July 1980, or the owner has requested conversion from vehicle license fees to local property taxes. Most requests for conversion from license fees occur when a manufactured home is sold, since sales and use tax is not due for manufactured homes subject to local assessment. Provided it is the owners' primary residence, conversion also allows the owners to qualify for the homeowners' exemption.

Manufactured homes not on permanent foundations must be classified as personal property. However, manufactured homes are treated differently than other personal property. Sections 5800 through 5842 govern how manufactured homes are valued and assessed. Unlike other personal property, manufactured home assessments are entered on the secured roll with a base year value and are subject to the annual CCPI inflation factor. The taxes may be paid in two installments, and manufactured homes are subject to supplemental assessments when there is a change in ownership or new construction. The taxable value of a manufactured home is the lesser of its factored base year value or its full cash value on the lien date.

Manufactured homes placed on a permanent foundation, in accordance with Health and Safety Code section 18551, are classified as structures.

In Stanislaus County, one appraiser is responsible for the assessment of 5,662 manufactured homes. The assessor is notified of sales and new construction of manufactured homes by the

Department of Housing and Community Development, building permits, dealer reports of sale, tax clearance certificates, and voluntary conversions.

In general, discovery procedures are good and new construction is assessed properly. However, there are areas where improvements are needed.

RECOMMENDATION 20: Classify all manufactured homes as personal property as required by section 5801(b)(2).

The assessor's roll identifies three types of property: land, structures, and personal property. Currently, all manufactured homes in Stanislaus County are classified as structures rather than personal property.

Section 5801(b)(2) provides that "[A] manufactured home...shall not be classified as real property for property taxation purposes." Classification of manufactured homes as personal property has several purposes. When classified as personal property, manufactured homes may qualify as business inventory, cannot be subject to possessory interest assessments, and cannot be subject to special assessments that apply only to land and improvements. That classification also allows for the exemption of manufactured homes under the provisions of the Soldiers and Sailors Civil Relief Act.

We recommend that all manufactured homes not affixed to a permanent foundation be classified as personal property as required by section 5801(b)(2).

RECOMMENDATION 21: Enroll the full cash value of a manufactured home upon a change in ownership.

Section 5802 establishes the base year value as the full cash value of a manufactured home on the date the manufactured home is purchased or changes ownership. Section 5803 provides that full cash value for a manufactured home on rented or leased land shall not include any value attributable to the particular site where the manufactured home is located.

When appraising manufactured homes, the assessor uses the market approach, the cost approach, and the National Automobile Dealer's Association value guide. The appraiser correlates these three values and enrolls an estimated full cash value for the date of transfer.

In our review of manufactured home appraisals, we found several where the assessor had enrolled a value other than the full cash value upon a change in ownership. In each instance, the appraiser used the three approaches to estimate the market value range, but enrolled a value—either higher or lower—outside that range.

We recommend the assessor ensure that his staff enrolls the full cash value of a manufactured home upon a change in ownership.

Aircraft

General Aircraft

Stanislaus County has 280 general aircraft on its assessment roll. Sixteen of those aircraft qualify for the historical aircraft exemption.

Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data*. The BOE no longer publishes this handbook section. On January 8, 1997, the BOE approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft. As stated in LTA 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date. In any instance, the appropriate adjustments to the book value must be made in order to estimate a market value in the hands of the user.

Most aircraft are appraised using a computer program created by the same company that publishes the *Aircraft Bluebook Price Digest*. This program allows the user to make appropriate adjustments for variances in engines, aircraft navigational equipment and avionics, and overall condition.

RECOMMENDATION 22: Revise procedures for engine hour adjustments when appraising general aircraft.

To request the information necessary for aircraft assessments, the assessor's office mails an annual "Aircraft Statement" to aircraft owners. Once this information is received, the assessor uses the published pricing guide and adjusts for airframe hours, avionics, hours since major overhaul, sales tax, and condition. The assessor also reduces listed retail values by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date, as provided in LTA 97/03. However, the assessor makes no engine hour adjustments if the reported engine hours are between 25 and 75 percent of the time between overhaul. We believe that engine hours have a major impact on the value of the aircraft and that the assessor's failure to make an engine hour adjustment in this range could result in values that are either too high or too low.

We recommend that the assessor make engine hour adjustments when the reported engine hours are between 25 and 75 percent of the time between overhaul.

Historical Aircraft

There were 16 historical aircraft in Stanislaus County on the 1999 lien date. Section 220.5 provides that aircraft of historical significance shall be exempt from taxation only if all of the conditions set forth therein are met. The assessor requires the claimants meet all those conditions before he grants the exemption.

Vessels

The assessor sends all vessel owners an annual combination boat statement and questionnaire. When returned, these forms are filed and are arrayed by assessment year and boat identification number.

In our last survey, we suggested the assessor file completed questionnaires by boat identification number, along with any other information for each vessel in one folder. We still believe that this procedure better tracks the assessment history for each vessel.

We also suggested, in our last survey, that the business property staff annually update their vessel market value study. This study was last updated in 1992. We feel that eight years is too long between reviews. Therefore, we are changing our prior suggestion to a recommendation.

RECOMMENDATION 23: Update the market study of vessel values annually.

When a vessel is purchased or moved into Stanislaus County, the business property staff initially appraises the vessel at market value, using the *ABOS* or *NADA* valuation guides. The vessels are then categorized and a yearly depreciation factor is applied to this initial value based on the vessel's particular category. The value is then adjusted each year as long as the vessel remains in the same ownership. The adjustment factors used in this adjustment were developed from a detailed analysis of year-to-year value changes in the value guides for the various categories of vessels.

Although the adjustment factors were determined as accurately as possible in 1992, they have not been changed since then. This assumes that the rate of annual depreciation does not change from year to year. However, many factors affecting the vessel market change yearly, or may affect one category of vessels differently from another.

We recommend the assessor annually update the vessel market study. That process will provide the most accurate valuation possible, short of individually appraising each vessel.

APPENDIX

A. County Property Tax Division Survey Group

Stanislaus County Assessment Practices Survey

Chief, County Property Tax Division

Charles Knudsen

Assessment Practices Survey Section Manager

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor

Arnold Fong

Supervising Property Appraiser

Survey Team Leader

Mike Lebeau

Supervising Property Appraiser

Survey Team

Dale Peterson

Senior Specialist Property Auditor Appraiser

Glenn Danley

Associate Property Appraiser

Zella Cunningham

Associate Property Appraiser

Kim Trotto

Junior Property Appraiser

Denise Owens

Tax Technician II

Julius Trujillo

Tax Technician II

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations**Rule 370. Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
 - (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
 - (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, if any, and BOE comments on the assessor's response, if any, constitute the final survey report. The Stanislaus County Assessor's response begins on the next page. The BOE's comments on the response begin on the next numbered page, following the assessor's response.



MIKE DEFERRARI
Stanislaus County Assessor

You Are Always Welcome In My Office!

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June 15, 2001

Mr. Charles Knudsen, Chief
County Property Tax Division
State Board of Equalization
P. O. Box 942879
Sacramento, CA 94279-0062

RECEIVED
JUN 19 2001

County Property Tax Division
State Board of Equalization

Dear Mr. Knudsen:

In accordance with Section 15645 of the California Government Code, we provide the following response to the State Board of Equalization's Assessment Practices Survey of Stanislaus County.

In reviewing my response, you will note that we agree with many of the recommendations and are planning to implement the changes necessary to achieve compliance. I am pleased that most of the issues raised are minor technical matters that do not involve or affect the major duties and functions of the department. We will continue to strive to observe every aspect of the law as well as sound appraisal practices in the production of the annual assessment roll. This response details those areas where we believe improvements are possible, notes areas of disagreement with proposals, or in some areas, rejects proposals as impractical or unfeasible.

I wish to express my appreciation to the entire survey team for the professional manner that they conducted the survey with a minimum of disruption to our operations. My office regards the survey process as a very important function of the Board and appreciates their constructive criticism and helpful suggestions.

I would also like to recognize my staff for the outstanding service they provide to our customers on an ongoing daily basis. These dedicated people are the reason my office is able to achieve its goals in serving the public.

Respectfully,

MIKE DeFERRARI, Assessor
Stanislaus County

MLD:emr
Enclosures

STANISLAUS COUNTY
ASSESSMENT PRACTICES SURVEY

ASSESSOR'S RESPONSE

JUNE 2001

RECOMMENDATION 1:

Require property owners to file a disaster relief application before granting disaster relief pursuant to section 170.

RESPONSE TO RECOMMENDATION 1:

We agree. This recommendation is specifically directed to applications for personal property damage, as we do require these applications for real property if there is a qualifying disaster under the county ordinance. We will change our procedures to correct this inconsistency.

RECOMMENDATION 2:

When processing disaster relief claims, prorate the assessment according to section 170(e).

RESPONSE TO RECOMMENDATION 2:

We concur. We will correct our procedures accordingly.

RECOMMENDATION 3:

Calculate the appropriate value reductions for each year when disaster relief applications span two tax years, as required by section 170(e).

RESPONSE TO RECOMMENDATION 3:

We agree with the substance of this recommendation. However, we stand by our system of "netting out" supplemental assessments for disaster relief or fire damage that span two tax years into one supplemental assessment. This system was devised because the taxpayer who suffered the disaster or fire usually received the supplemental bill for the repair or restoration before receiving the refund for the negative supplemental due to the loss. This situation is embedded in our property tax system and there seems to be no resolving it until major revisions, which are being planned, are made.

This clearly is unfair. Our solution is to "net" the two supplementals into one, which results in a single refund. Our solution results in much better taxpayer service and a large reduction in paperwork. When we used the BOE recommended procedure, we received many (justified) complaints about this situation; now that we have netted the

two supplementals, we have no complaints. This is all achieved with nearly the same net tax impact.

RECOMMENDATION 4:

Cite the proper Revenue and Taxation Code sections when processing roll corrections:

RESPONSE TO RECOMMENDATION 4:

We agree. We have taken steps to assure that the proper code sections are cited on all roll corrections, and particularly for exemptions, which were the focus of this recommendation.

RECOMMENDATION 5:

Use the proper caption when enrolling escape assessments.

RESPONSE TO RECOMMENDATION 5:

We agree with this recommendation and are taking steps to change our computer system to include the proper caption on our electronic roll.

RECOMMENDATION 6:

Where appropriate, cite section 531.4 to ensure that section 506 interest is added to escape assessments.

RESPONSE TO RECOMMENDATION 6:

We concur and will take measures to ensure that this recommendation is implemented.

RECOMMENDATION 7:

Enroll all escape assessments.

RESPONSE TO RECOMMENDATION 7:

It is true that section 531 provides that if any property belonging on the local roll has escaped assessment, the assessor *shall* assess the property on discovery. The section further provides that the escaped property shall be assessed at its *value* on the lien date for the year for which it escaped assessment.

We believe that small additions or changes that lead to possible escape assessments or roll corrections (refunds) would not, in all probability, make any difference in the market *value* of a property. The small addition or change would probably fall within a standard range of market value, and even could be less than a normal rounding amount. It is an appraisal decision, based on the evidence, whether an addition or change affects the market value. The addition or change could, in fact, be very large and very costly but add no value to the property. The appraiser has to use judgment to determine this. We did establish the \$1,500 and \$500 minimums as guidelines to provide consistency at the low end of value.

Further, the Auditor does not process refunds for less than \$10 (Revenue and Taxation Code 5089 and 5097.2). The Tax Collector is not required to send out bills for less than

\$20 (section 2611.4) and can cancel delinquent bills that are less than \$10 (section 4986.8). It would be inefficient and wasteful to process escapes and refunds, only to have them result in no bill being sent or no refund issued. It is our opinion, therefore, that it is in the best interest of good government, taxpayers, and the public to not issue escape assessments or refunds for small additions or changes.

RECOMMENDATION 8:

Include transferors' names on the section 408.1 transfer list.

RESPONSE TO RECOMMENDATION 8:

We concur and will take steps to comply.

RECOMMENDATION 9:

Obtain copies of all possessory interest leases and contracts.

RESPONSE TO RECOMMENDATION 9:

We concur with this recommendation and will make every effort to comply in the future.

RECOMMENDATION 10:

Review all uses of the fairgrounds and convention center properties to determine whether additional taxable possessory interests exist.

RESPONSE TO RECOMMENDATION 10:

We concur. We will review the uses of the fairgrounds and convention center to see if possessory interests exist.

RECOMMENDATION 11:

Enroll all low-value taxable possessory interests.

RESPONSE TO RECOMMENDATION 11:

We concur and will take measures to enroll all low-value possessory interests. We still must, however, determine our priorities in this area commensurate with the prudent use of our resources.

RECOMMENDATION 12:

Recognize possessory interest changes in ownership.

RESPONSE TO RECOMMENDATION 12:

We concur. However, we do not believe that this is a problem endemic in our system. We have adopted possessory interest policies and procedures that attempt to discover all possessory interest changes in ownership. The survey team discovered two expired leases that our office inadvertently missed prior to the adoption of our current procedures. We will, however, review our possessory interest assessments that have older base year values.

RECOMMENDATION 13:

Review all taxable government-owned properties for proper valuation.

RESPONSE TO RECOMMENDATION 13:

We agree. We recently updated our policies and procedures regarding these properties and developed a tracking and valuation spreadsheet, but we recognize our past deficiencies. We now have a commercial appraiser responsible for new section 11 property valuations, as well as the annual review of all existing section 11 assessments.

RECOMMENDATION 14:

Screen signatures on business property statements to ensure compliance with Property Tax Rule 172.

RESPONSE TO RECOMMENDATION 14:

We concur, although the two property statements found by the survey team signed by other than an authorized person and that we accepted were inadvertent errors and not systemic. Our procedure is to reject statements not signed by a qualified person. We will remind everyone to be even more diligent in the future.

RECOMMENDATION 15:

Reject incomplete business property statements.

RESPONSE TO RECOMMENDATION 15:

We concur with reservations. This recommendation specifically refers to section 1 of the business property statement that contains questions that alert the assessor to possible changes in ownership.

We agree that it is important to identify possible changes in ownership of real property. However, we estimate Part I of the property statement is incomplete in over 50% of the statements received. The impact of rejecting thousands of statements would put a heavy burden on our staff that far exceeds the benefits of discovery through this channel.

All but a few of the real property changes of ownership are discovered from deeds that we already process. Therefore, while we agree taxpayers should always complete this part, it would be an administrative nightmare to reject (and follow-up on) the massive number of statements this rejection would necessitate.

RECOMMENDATION 16:

Use the BOE's equipment index factors as intended.

RESPONSE TO RECOMMENDATION 16:

We disagree. There are some small differences in using the factors as prescribed and averaging the factors. We conducted a survey of the impact of using the index factors individually compared with using the average for a 10, 12, and 15-year life. Our study indicated that there would be no more than a one percent difference in full cash value in

any of the index factors. The California Assessors' Association (CAA) has recommended combining these factors for the 2001 lien year for the same reason.

When estimating the value of equipment, the index factors, combined with the R-3 curve, are used to derive an estimate of value. The value of equipment can vary because of many factors, especially as equipment ages (maintenance level, physical site where housed, technology changes, economic conditions, and so on). We must recognize that we are estimating value, and in keeping with the practice of uniform assessments throughout the state, we will be using the CAA recommendations for both the commercial and industrial tables.

RECOMMENDATION 17:

Discontinue limiting valuation factors to an arbitrary minimum level.

RESPONSE TO RECOMMENDATION 17:

We concur. Starting with the 2000 lien date, we follow the CAA recommendations. The minimum percent good is determined by combining the index and R-3 factors and stopping at 125% of the life being used.

RECOMMENDATION 18:

Use the AH581 percent good table for mobile construction equipment.

RESPONSE TO RECOMMENDATION 18:

We disagree. The survey recommends that we distinguish between new and used mobile construction equipment by using the factors on Table V of AH581. We use Table IV that results in value factors between the new and used values recommended in the survey.

Almost all mobile construction equipment is reported on the BOE prescribed Business Property Statement. The BPS does not require a differentiation between new and used mobile construction equipment. Therefore, we use a mid-range table to value this equipment.

RECOMMENDATION 19:

Assess computers using the BOE-recommended factors.

RESPONSE TO RECOMMENDATION 19:

We concur. Starting with the 2000 lien date, we have been using the recommended factors.

RECOMMENDATION 20:

Classify all manufactured homes as personal property as required by section 5801(b)(2).

RESPONSE TO RECOMMENDATION 20:

We concur. However, we do value all manufactured homes not on an approved permanent foundation as personal property, although the real property rules for supplementals, etc. apply. We would like to have manufactured homes identified on our assessment roll as personal property. Our current computer system, however, does not allow this designation and still allow supplementals.

The homes are thus carried on the roll as improvements, although we treat them as personal property. We are working with our information technology department to update our computer system. Included in this update, is our desire to correct the manufactured home situation. This update, however, is a major project and completion will probably be measured in years.

RECOMMENDATION 21:

Enroll the full cash value of a manufactured home upon a change in ownership.

RESPONSE TO RECOMMENDATION 21:

We agree. We find that there is quite a bit of volatility in the sale prices of manufactured homes in relation to the other value approaches. Nevertheless, it appears that, for the several sales referenced in the survey, too much weight was given to the Rule 2 presumption that the sale price is market value. We will review with our staff our procedures and training regarding manufactured homes to ensure that full cash value of manufactured homes is enrolled upon a change in ownership.

RECOMMENDATION 22:

Revise procedures for engine hour adjustments when appraising general aircraft.

RESPONSE TO RECOMMENDATION 22:

We concur. We will make engine hour adjustments using mid-range as a starting point beginning with the 2001 lien date.

RECOMMENDATION 23:

Update the market study of vessel values annually.

RESPONSE TO RECOMMENDATION 23:

We concur that it would be more accurate to update our factors annually. We have not updated the factors since 1992 and we will strive to get them updated in the summer of 2001. Doing this annually will not be feasible, but we will attempt to update them at least every three to five years.

BOE'S COMMENTS ON ASSESSOR'S RESPONSE

In accordance with the provisions of Government Code section 15645, the Board's staff has elected to comment on the assessor's response.

Recommendation 17: Discontinue limiting valuation factors to an arbitrary minimum level.

Assessor's Response:

We concur. Starting with the 2000 lien date, we follow the CAA recommendations. The minimum percent good is determined by combining the index and R-3 factors and stopping at 125% of the life being used.

We disagree that following the CAA (California Assessors' Association) recommendations – which includes stopping at 125 percent of economic life – complies with our recommendation.

Assessors' Handbook Section 581, *Equipment Index Factors*, recommends that for mass appraisals, appraisers should use a maximum equipment index factor for an age equal to 125 percent of the estimated average service life. Therefore, the CAA recommendations are in accord with the AH 581 for purposes of the index factor.

However, an equipment valuation factor has two components – an index factor and a percent good factor. The percent good factors in AH 581 do *not* stop at 125 percent of service life. Instead, the percent good factors continue to decline well past 125 percent of life – down to 1 percent good.

For example, if a group of equipment has an average service life of 12 years, at age 15 the surviving equipment would be 11 percent good, 17-year-old equipment would be 5 percent good, and 19-year old (or older) equipment would be 1 percent good. Under this example, the use of an arbitrary minimum percent good results in a value (for very old equipment) 11 times higher than the value that would be obtained by using the AH 581.

We agree that some older equipment may very well be worth considerably more than 1 percent of replacement cost new, just as some relatively new equipment may be worth considerably less than the value indicated by any mass appraisal table. However, deviations from valuation tables such as those presented in AH 581 should be made on a case-by-case basis, and we cannot endorse the use of arbitrary minimums such as those recommended by the CAA.